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Franklin County Treasurer

In 1980, the average purchase price for a new car was $7,600.

Now, the price has soared to an amazing $20,700. Loans to finance car purchases used to be for no more than 4 years, whereas today the loan can be financed for anywhere from 6-8 years. Extending the repayment period of the loan allows for lower payments, which makes car loans more affordable.

Buy a Car or Lease a Car?

Most people who go shopping for a new car have pretty much made up their mind about what type of vehicle they want and how much of a monthly payment they can afford. Purchasing a vehicle has become unaffordable to some. Years ago, lenders decided to make these big-ticket items more affordable by adding an option to lease. Before you decide to buy or lease your next vehicle, take the time to consider carefully which makes more sense for you and your family.

Leasing a car typically will offer a lower monthly payment than buying a car because the amount of the lease is based on depreciation. The depreciation is figured by subtracting the car's projected value at the end of the lease (residual value) from the Manufacturer's Suggested Retail Price. The appeal of leasing is:

- The monthly payments are lower.
- You can drive a new car every few years.
- The contract can include up to 18,000 miles per year.

But there is more to leasing than simply making the payments every month. You are still responsible for maintenance of the vehicle. Pay close attention to the details or restrictions of the lease. Questions you might ask are:

- How much mileage is allowed for the term of the lease?
- How much will be assessed per mile over the limit?
- Is there a lease termination fee? If yes, then how much?
- What constitutes excess wear and tear? Ask for a copy of their policy.
- Is this an open-ended lease? This type of lease requires you to buy the vehicle for the amount of the residual value when the lease runs out.
- Is this a closed-ended lease? The closed-ended lease will allow you the choice whether to buy the vehicle for the amount of the residual value, or simply return the vehicle and walk away when the lease ends.

If you are the type of person who wants to keep a car more than 5 years or drive more than 18,000 miles per year, you may be better off buying the vehicle. Yet the monthly payments will be higher because they are calculated based on the total purchase price. To help hold down the monthly cost, some lenders are willing to extend the terms of the loan up to 6 or 7 years. You will be better off if you finish paying down the loan before trading the car in. The benefits to buying are:

- You will own the vehicle.
- There are no mileage penalties or restrictions.
- You can shop for your own loan rate of interest. Some lenders will offer a ¼% decrease on the rate if you have an account with them and agree to have the payment automatically debited from that account.

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- Depending on the value when you trade it in, and how much is left on the loan, you may already have the down payment on your next vehicle.

Ohio law requires insurance. Whether you decide to buy or lease your next vehicle, lenders have a vested interest in it and will require full insurance coverage. Since cars depreciate in value, you may want to consider a Gap insurance policy addendum. If a vehicle is damaged beyond its worth, the insurance company will only pay what the vehicle is worth at that time. If the loan value is higher than the actual worth of the car, which it often is, then Gap insurance will pay the difference. It is fairly inexpensive, and could save you a lot of money in the event of an accident. Usually this insurance can be offered on a new vehicle through your insurance company for a minimal premium. Most insurance companies do not offer this coverage on a pre-owned vehicle, but it might be available through the dealership. To find out more about this type of coverage, contact your insurance agent.

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